

PELLA COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2012

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**Pella Community School District
Board of Education and School District Officials
Year Ended June 30, 2012**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2011 Election)		
Marv Van Wyk	President	2011
Joan Corbin	Vice President	2013
Jennifer Palmer	Board Member	2011
Gregg Gustafson	Board Member	2013
Katie Peterson	Board Member	2013
(After September 2011 Election)		
Joan Corbin	President	2013
Gregg Gustafson	Vice President	2013
Katie Peterson	Board Member	2015
Timothy Tripp	Board Member	2015
Martin Wesemann	Board Member	2015
School District Officials		
Greg Ebeling	Superintendent	2012
Roger De Waard	District Secretary/Treasurer	2012
Ron Peeler	Attorney	Indefinite



Independent Auditor's Report

To the Board of Education of Pella Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Pella Community School District, Pella, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Pella Community School District at June 30, 2012, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2012 on our consideration of Pella Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 5 through 13 and 42 through 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pella Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the nine years ended June 30, 2011, (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 10, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Van Maanen, Sietstra & Meyer, PC

Van Maanen, Sietstra & Meyer, PC
Certified Public Accountants

October 17, 2012

Management Discussion and Analysis

The Pella Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Financial Highlights

- General Fund revenues for FY12 were \$20,612,029 compared to \$19,791,841 for FY11. This was an increase of \$820,188 or 4.14%.
- General Fund expenditures for FY12 were \$19,798,199 compared to \$18,960,038 for FY11. This was an increase of \$838,161 or 4.42%.
- The District's General Fund unassigned fund balance for FY12 was \$2,481,175 compared to \$1,762,310 for FY11. This was an increase of \$718,865 or 40.79%. This increase was due in part to the coding of the deferred ARRA funds carried over from FY11 as well as overall improvement in General Fund revenues.
- The Financial Solvency Ratio is an accepted measure of the district's financial health and is calculated by taking the undesignated, unreserved fund balance divided by the total revenues. This ratio increased from 8.9% in FY11 to 12.04% in FY12. The District attempts to target a solvency ratio between 5% and 10%.
- The District ended FY12 with a special education deficit of \$456,117. This compares to \$334,261 for FY11, an increase of \$121,856.
- In general, the 2011-2012 School Year was a positive one financially. Prior year cost saving measures as well as the use of the ARRA Stimulus money and an increase in State Foundation Aid helped bolster the financial position of the district. While the on-going stability and predictability of future funding remains somewhat questionable, the district is well positioned to withstand these challenges.
- A ten year comparison of the District's assessed valuations, tax increment financing and total tax rates are as follows:

Year	Assessed Valuation	Tax Increment Financing	Total Tax Rate - %
2011-2012	\$ 621,722,509	52,619,101	14.21433
2010-2011	603,931,771	49,332,363	13.99439
2009-2010	603,548,029	34,192,965	13.83649
2008-2009	551,197,053	58,983,585	13.84418
2007-2008	478,010,818	72,596,699	13.88073
2006-2007	470,138,907	68,740,308	13.41259
2005-2006	463,535,140	66,071,157	13.52362
2004-2005	458,097,534	65,307,399	13.57896
2003-2004	477,138,783	60,053,193	13.31915
2002-2003	470,594,593	46,139,452	13.15690

The assessed valuation for the 2004-2005 school year dropped due to the state imposed agriculture rollback.

Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *District-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide statements.
- The statements for *governmental funds* explain how basic services, such as regular and special education, were financed in the short term as well as what remains for future spending.
- The statements for *proprietary funds* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- The statements for *fiduciary funds* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

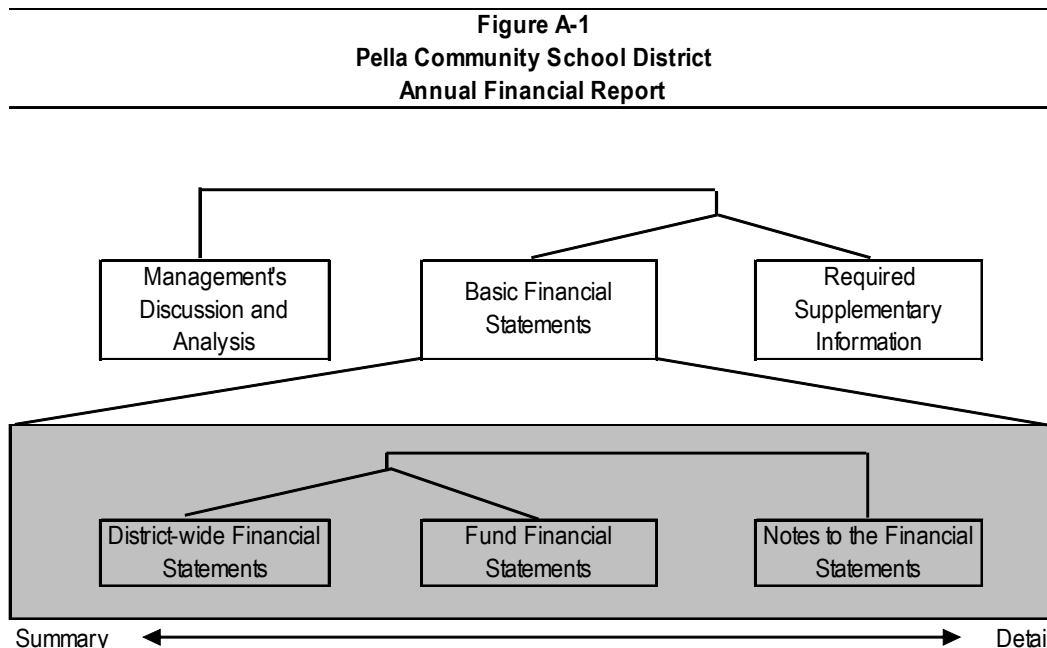


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the District-wide and Fund Financial Statements				
	District-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as the special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures, and changes in fund balances	* Statement of revenues, expenses and changes in net assets * Statement of cash flows	* Statement of fiduciary net assets * Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year; or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid
Common names of district funds included	All funds with the exception of scholarship funds	General, PPEL, Management, Student Activity, Debt Service, Capital Projects	Nutrition Fund, Community Services	Special Projects

District-wide Statements

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two District-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the District-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school food service program would be included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

Governmental funds: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements. The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

Proprietary funds: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

Fiduciary funds: The District is the trustee, or *fiduciary*, for assets that belong to others, such as a scholarship fund. The District accounts for outside donations to specific District schools for specific purposes in this fund. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District as a Whole

Net assets – Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2012 compared to 2011.

Figure A-3							
Condensed Statement of Net Assets							
	Governmental Activities		Business type activities		Total		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-2012
Current assets	\$ 27,385,499	15,938,155	507,715	412,078	27,893,214	16,350,233	70.6%
Noncurrent assets	31,034,289	31,541,960	216,528	248,239	31,250,817	31,790,199	-1.7%
Total assets	58,419,788	47,480,115	724,243	660,317	59,144,031	48,140,432	22.9%
Current liabilities	14,113,571	13,609,523	20,005	17,691	14,133,576	13,627,214	3.7%
Noncurrent liabilities	21,675,542	13,849,363	35,893	26,338	21,711,435	13,875,701	56.5%
Total liabilities	35,789,113	27,458,886	55,898	44,029	35,845,011	27,502,915	30.3%
Net assets:							
Invested in capital assets, net of related debt	17,884,903	16,781,960	216,528	248,239	18,101,431	17,030,199	6.3%
Restricted	2,629,341	1,909,953	-	-	2,629,341	1,909,953	37.7%
Unrestricted	2,116,431	1,329,316	451,817	368,049	2,568,248	1,697,365	51.3%
Total net assets	\$ 22,630,675	\$ 20,021,229	668,345	616,288	23,299,020	20,637,517	12.9%

The District's combined net assets increased by 12.90% from \$20,637,517 to \$23,299,020.

**Pella Community School District
Management's Discussion and Analysis
Year ended June 30, 2012**

Changes in net assets – Figure A-4 shows the changes in net assets for the year ended June 30, 2012

**Figure A-4
Changes in Net Assets**

	Governmental activities		Business type activities		Total District		Total Change
	Year ended June 30,		Year ended June 30,		Year ended June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-2012
Revenues:							
Program revenues:							
Charges for services	\$1,894,161	1,629,176	770,670	745,758	2,664,831	2,374,934	12.21%
Operating grants and contributions	3,008,776	4,068,226	380,952	346,622	3,389,728	4,414,848	-23.22%
General Revenues:							
Local taxes	9,560,285	9,015,673	-	-	9,560,285	9,015,673	6.04%
Statewide sales, services and use tax	1,858,411	1,446,382	-	-	1,858,411	1,446,382	28.49%
Unrestricted state grants	8,840,862	7,986,546	-	-	8,840,862	7,986,546	10.70%
Investment earnings	28,614	10,947	554	977	29,168	11,924	144.62%
Other	405,545	311,012	-	-	405,545	311,012	30.40%
Total revenues	<u>25,596,654</u>	<u>24,467,962</u>	<u>1,152,176</u>	<u>1,093,357</u>	<u>26,748,830</u>	<u>25,561,319</u>	<u>4.65%</u>
Expenses:							
Program expenses:							
Instruction	15,079,132	15,034,517	-	-	15,079,132	15,034,517	0.30%
Support services - students & staff	1,531,212	1,180,385	-	-	1,531,212	1,180,385	29.72%
Support services - administration	1,516,575	1,703,463	-	-	1,516,575	1,703,463	-10.97%
Operations and maintenance	2,045,270	1,984,017	-	-	2,045,270	1,984,017	3.09%
Transportation	997,795	994,445	-	-	997,795	994,445	0.34%
Non-instructional activities	86,187	78,139	1,100,119	1,039,354	1,186,306	1,117,493	6.16%
Other expenditures	1,731,037	1,757,538	-	-	1,731,037	1,757,538	-1.51%
Total expenses	<u>22,987,208</u>	<u>22,732,504</u>	<u>1,100,119</u>	<u>1,039,354</u>	<u>24,087,327</u>	<u>23,771,858</u>	<u>1.33%</u>
Change in net assets	<u>\$2,609,446</u>	<u>1,735,458</u>	<u>52,057</u>	<u>54,003</u>	<u>2,661,503</u>	<u>1,789,461</u>	<u>48.73%</u>

Governmental Activities

Local taxes and unrestricted state grants account for 71.9 percent of the total governmental activities revenue. The District's expenses primarily relate to instruction and support services, which account for 92.5 percent of the total expenses.

Revenues for governmental activities were \$25,596,654 and expenses were \$22,987,208, resulting in a net asset increase of \$2,609,446.

Figure A-5 presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

**Figure A-5
Total and Net Cost of Governmental Activities**

	Total Cost of Services		Change	Net Cost of Services		Change
	2012	2011	2011-2012	2012	2011	2011-2012
Instruction	\$ 15,079,132	15,034,517	0.3%	11,142,957	10,375,119	7.4%
Support services	6,090,852	5,862,310	3.9%	5,942,563	5,712,120	4.0%
Non-instructional programs	86,187	78,139	10.3%	86,187	78,139	10.3%
Other expenses	1,731,037	1,757,538	-1.5%	912,564	869,724	4.9%
Totals	<u>\$ 22,987,208</u>	<u>22,732,504</u>	<u>1.1%</u>	<u>18,084,271</u>	<u>17,035,102</u>	<u>6.2%</u>

- The cost financed by users of the District's programs was \$1,894,161.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$3,008,776.
- The net cost of governmental activities was financed with \$9,560,285 in local taxes, \$8,840,862 in unrestricted state grants, \$1,858,411 in local option sales and services tax, \$28,614 in interest income and \$405,545 in other income.

Business-Type Activities

Revenues of the District's business-type activities were \$1,152,176 and expenses were \$1,100,119. The District's business-type activities include Families First and the School Nutrition Fund. The School Nutrition Fund, however, accounts for 94.5 percent of the business-type activity. Revenues of these activities were comprised of \$759,603 in charges for service, \$334,648 for federal and state reimbursements and investment income of \$554. The net assets for business-type activities increased by \$52,057.

Financial Analysis of the District's Funds

As previously noted, the Pella Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$15,187,208. This compares to \$4,121,416 last year, an increase of \$11,065,792. This fund balance includes \$9,593,879 in restricted fund balance held for the future retirement of long-term debt. Without that restricted amount the fund balance increased \$1,471,913. The majority of this increase was due to improved financial conditions compared to last year.

Governmental Fund Highlights

- The General Fund balance increased \$817,295 from \$2,316,295 to \$3,133,590.
- The Activity Fund balance increased \$15,742 from \$232,284 to \$248,026.
- The Management Fund balance decreased \$31,170 from \$401,431 to \$370,261.
- The Physical Plant & Equipment Levy (PPEL) Fund balance increased \$46,989 from \$216,125 to \$263,114.
- The Statewide Sales, Services and Use Tax Fund balance increased \$693,126 from \$885,212 to \$1,578,338. The Statewide Sales, Services and Use Tax generated \$1,858,411. The District receives money from Jasper, Mahaska and Marion Counties. Interest income was \$954.
- The Debt Service Fund balance increased \$9,523,810 from \$70,069 to \$9,593,879. School Infrastructure Local Option Sales Taxes are used to maintain a debt service levy of \$2.24/\$1,000 or less, which was the amount in place when our most recent bond issue was passed. The large increase in the Debt Service Fund is due to the issuance of a refunding bond issue during 2012. The proceeds from the issue remain in escrow until the existing bonds become callable in 2015.

Proprietary Fund Highlights

The District's Proprietary Funds include the School Nutrition Fund and Families First.

- The School Nutrition Fund net assets increased \$42,320, from \$604,016 to \$646,336.
- Families First is a community services oriented program. The revenues and expenditures of this program also run through the District's financial accounting records. This program is dependent upon contributions, grants and some user fees for its operation. The balance in this fund increased \$9,737 from \$12,505 to \$22,009.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on pages 42 and 43.

Legal Budgetary Highlights

The District's total actual receipts were \$650,076 more than the total budgeted receipts, a variance of 2.5%. Total expenditures were \$542,434 less than the total budgeted expenditures, a variance of 2.1%.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2012, the District had invested \$31,176,431, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, musical instruments, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$1,591,852.

The original cost of the District's capital assets was \$52,754,983. Governmental funds account for \$51,713,292 with the remaining \$1,041,691 in the School Nutrition Fund.

Figure A-6
Capital Assets, net of Depreciation

	Governmental Activities		Business Type activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-2012
Land	\$ 1,690,900	1,690,900	-	-	1,690,900	1,690,900	0.0%
Buildings	25,054,610	25,665,268	-	-	25,054,610	25,665,268	-2.4%
Improvements other than buildings	2,635,881	2,802,844	-	-	2,635,881	2,802,844	-6.0%
Furniture and equipment	1,578,512	1,382,948	216,528	248,239	1,795,040	1,631,187	10.0%
Totals	\$ 30,959,903	31,541,960	216,528	248,239	31,176,431	31,790,199	-1.9%

Long-Term Debt

At June 30, 2012, the District had \$21,320,000 in general obligation bonds and other long-term debt. This is an increase of \$7,939,957 from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations

	June 30,		Total Change
	2012	2011	
General obligation bonds	\$ 21,320,000	12,730,000	67.5%
Revenue bonds	1,415,000	2,030,000	-30.3%
Early retirement	604,699	757,705	-20.2%
Other postemployment benefits	443,141	325,178	36.3%
Totals	\$ 23,782,840	15,842,883	50.1%

**Pella Community School District
Management's Discussion and Analysis
Year ended June 30, 2012**

The District had total outstanding bonded indebtedness at June 30, 2012 of \$21,320,000. This represents three separate bond issues, one of which will be retired in FY13 and the other which will be refunded in 2015. The third bond issue will be used to refund the second issue in 2015. The proceeds from this issue are currently being held in escrow until the refunding occurs. The District also has two outstanding revenue bond issues totaling \$1,415,000 as of June 30, 2012. Both of those issues will be retired in FY14.

The District also has a long-term debt obligation for its early retirement plan, which was \$604,699 at June 30, 2012. Retiring employees are currently allowed to receive payments until they reach age 65. This obligation is paid from the District's Management Fund. Other postemployment benefits total \$443,141.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The October, 2012 enrollment reduced again by 20 students. This decrease will reduce funding for the 2013-2014 school year. Allowable growth has not been set for 2013-2014, so it is unknown whether or not there will be new money to help offset some of the loss in funding due to the enrollment decrease.
- The District's transportation fleet remains in good shape overall. This past year one bus and one support vehicle were purchased.
- Pella is home to the corporate headquarters of Pella Corporation and Vermeer Manufacturing. The current economic environment seems to have stabilized at this point, and neither Pella Corporation nor Vermeer Manufacturing has experienced any layoffs of employees in the past year. The property tax base remains solid at this point and housing starts continue, though not nearly as strong as in the past.
- The Pella Community School District is very unique in that it does not have a collective bargaining agreement with its teachers. There continues to be a very amicable relationship between management and labor.
- There were no significant changes in leadership during the past year.
- All in all, the 2011-2012 school-year was a good year financially. The 2012-2013 school year seems manageable at this point thanks to improved funding, but the District remains cautious about any potential adverse action by the Legislature that could negatively impact funding.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Roger DeWaard, Business Manager, Pella Community School District, 210 E. University, P.O. Box 468, Pella, Iowa, 50219.

Basic Financial Statements

Exhibit A

Pella Community School District
Statement of Net Assets
June 30, 2012

	Governmental Activities	Business Type Activities	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 15,967,737	464,984	16,432,721
Receivables:			
Property tax:			
Delinquent	90,857	-	90,857
Succeeding year	9,313,510	-	9,313,510
Due from other governments	1,813,558	-	1,813,558
Inventories	25,728	34,224	59,952
Prepaid expense	174,109	8,507	182,616
Total current assets	27,385,499	507,715	27,893,214
Noncurrent assets:			
Bond discounts, amortized, net	74,386	-	74,386
Capital assets:			
Capital assets, nondepreciable	1,690,900	-	1,690,900
Capital assets, depreciable, net	29,269,003	216,528	29,485,531
Total noncurrent assets	31,034,289	216,528	31,250,817
Total assets	\$ 58,419,788	724,243	59,144,031
Liabilities			
Current liabilities:			
Accounts payable	\$ 400,514	4,810	405,324
Salaries and benefits payable	1,394,221	15,195	1,409,416
Due to other governments	12,082	-	12,082
Accrued interest payable	73,398	-	73,398
Unearned revenue:			
Succeeding year property tax	9,313,510	-	9,313,510
Other	816,559	-	816,559
General obligation bonds payable	1,120,000	-	1,120,000
Revenue bonds payable	690,000	-	690,000
Early retirement	261,405	-	261,405
Compensated absences	31,882	-	31,882
Total current liabilities	14,113,571	20,005	14,133,576
Noncurrent liabilities:			
General obligation bonds payable	20,200,000	-	20,200,000
Revenue bonds payable	725,000	-	725,000
Early retirement	343,294	-	343,294
Other post employment benefits	407,248	35,893	443,141
Total noncurrent liabilities	21,675,542	35,893	21,711,435
Total liabilities	35,789,113	55,898	35,845,011

Exhibit A**Pella Community School District
Statement of Net Assets
June 30, 2012**

	Governmental Activities	Business Type Activities	Total
Net assets			
Invested in capital assets, net of related debt	17,884,903	216,528	18,101,431
Restricted for:			
Categorical funding	452,578	-	452,578
Management levy purposes	26,967	-	26,967
Physical plant and equipment levy	263,114	-	263,114
Student activities	248,026	-	248,026
School infrastructure	1,189,838	-	1,189,838
Debt service	248,981	-	248,981
Purpose restricted	199,837	-	199,837
Unrestricted	2,116,431	451,817	2,568,248
Total net assets	22,630,675	668,345	23,299,020
Total liabilities and net assets	\$ 58,419,788	724,243	59,144,031

See notes to financial statements.

Exhibit B

Pella Community School District
Statement of Activities
Year Ended June 30, 2012

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities
Functions/Programs					Total
Governmental activities:					
Instruction:					
Regular	\$ 9,219,130	792,710	1,643,609	(6,782,811)	- (6,782,811)
Special	2,748,582	441,647	368,399	(1,938,536)	- (1,938,536)
Other	3,111,420	645,632	44,178	(2,421,610)	- (2,421,610)
	15,079,132	1,879,989	2,056,186	(11,142,957)	- (11,142,957)
Support Service:					
Student	401,881	-	-	(401,881)	- (401,881)
Instructional staff	1,129,331	-	-	(1,129,331)	- (1,129,331)
Administration	1,516,575	-	-	(1,516,575)	- (1,516,575)
Operating and maintenance of plant	2,045,270	14,172	134,117	(1,896,981)	- (1,896,981)
Transportation	997,795	-	-	(997,795)	- (997,795)
	6,090,852	14,172	134,117	(5,942,563)	- (5,942,563)
Non-instructional programs	86,187	-	-	(86,187)	- (86,187)
Other expenditures:					
Long-term debt interest	716,124	-	-	(716,124)	- (716,124)
AEA flowthrough	818,473	-	818,473	-	-
Depreciation (unallocated)*	196,440	-	-	(196,440)	- (196,440)
	1,731,037	-	818,473	(912,564)	- (912,564)
Total governmental activities	22,987,208	1,894,161	3,008,776	(18,084,271)	- (18,084,271)
Business type activities:					
Non-instructional programs:					
Community services	53,634	17,067	46,304	-	9,737 9,737
Nutrition services	1,046,485	753,603	334,648	-	41,766 41,766
Total business type activities	1,100,119	770,670	380,952	-	51,503 51,503
Total primary government	\$ 24,087,327	2,664,831	3,389,728	(18,084,271)	51,503 (18,032,768)

Exhibit B

Pella Community School District
Statement of Activities
Year Ended June 30, 2012

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
			Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities
	Expenses	Charges for Service			Total
Totals continued from previous pages	\$ 24,087,327	2,664,831	3,389,728	(18,084,271)	51,503
General Revenues:					
Property tax levied for:					
General purposes				7,743,492	-
Debt service				1,142,682	-
Capital outlay				674,111	-
Statewide sales, services and use tax				1,858,411	-
Unrestricted state grants				8,840,862	-
Unrestricted investment earnings				28,614	554
Contributions not restricted to specific programs				123,895	-
Gain on disposal of capital assets				3,465	-
Other				278,185	-
Total general revenues				20,693,717	554
Change in net assets				2,609,446	52,057
Net assets beginning of year				20,021,229	616,288
Net assets end of year				\$ 22,630,675	668,345

*This amount excludes the depreciation included in the direct expenses of the various programs

See notes to financial statements.

Exhibit C

Pella Community School District
Balance Sheet
Governmental Funds
June 30, 2012

	General	Debt Service	Capital Projects	Non-major Governmental	Total
Assets					
Cash and pooled investments	\$ 3,890,294	9,583,021	1,584,327	910,095	15,967,737
Receivables:					
Property tax:					
Current year delinquent	69,005	10,835	6,391	4,626	90,857
Succeeding year	6,595,836	1,551,644	696,030	470,000	9,313,510
Due from other governments	1,547,600	23	265,925	10	1,813,558
Inventories	25,728	-	-	-	25,728
Prepaid expenses	174,109	-	-	-	174,109
Total assets	\$ 12,302,572	11,145,523	2,552,673	1,384,731	27,385,499
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 362,353	-	15,191	22,970	400,514
Salaries and benefits payable	1,382,152	-	-	12,069	1,394,221
Due to other governments	12,082	-	-	-	12,082
Deferred revenue:					
Succeeding year property tax	6,595,836	1,551,644	696,030	470,000	9,313,510
Other	816,559	-	-	-	816,559
Early retirement payable	-	-	-	261,405	261,405
Total liabilities	9,168,982	1,551,644	711,221	766,444	12,198,291
Fund balances:					
Nonspendable for:					
Inventories	25,728	-	-	-	25,728
Prepaid expense	174,109	-	-	-	174,109
Restricted for:					
Categorical funding	452,578	-	-	-	452,578
Debt service	-	9,593,879	388,500	-	9,982,379
Management levy purposes	-	-	-	370,261	370,261
Student activities	-	-	-	248,026	248,026
School infrastructure	-	-	1,189,838	-	1,189,838
Physical plant and equipment	-	-	263,114	-	263,114
Unassigned	2,481,175	-	-	-	2,481,175
Total fund balances	3,133,590	9,593,879	1,841,452	618,287	15,187,208
Total liabilities and fund balances	\$ 12,302,572	11,145,523	2,552,673	1,384,731	27,385,499

See notes to financial statements.

Exhibit D**Pella Community School District
Reconciliation of the Balance Sheet
Governmental Funds to the Statement of Net Assets
June 30, 2012**

Total fund balances of governmental funds (Exhibit C) **\$ 15,187,208**

***Amounts reported for governmental activities in the
Statement of Net Assets are different because:***

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 30,959,903

Long-term liabilities, including bonds and notes payable, compensated absences and other postemployment benefits, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Those liabilities at year-end consist of:

General obligation bonds payable	\$ (21,320,000)	
Revenue bonds payable	(1,415,000)	
Bond discounts	74,386	
Accrued interest	(73,398)	
Early retirement	(604,699)	
Portion of early retirement reflected on governmental funds	261,405	
Compensated absences	(31,882)	
Other post employment benefits	(407,248)	(23,516,436)

Net assets of governmental activities (Exhibit A) **\$ 22,630,675**

See notes to financial statements.

Exhibit E**Pella Community School District****Statement of Revenues, Expenditures and Changes in Fund Balance****Governmental Funds****Year ended June 30, 2012**

	General	Debt Service	Capital Projects	Non-major Governmental	Total
Revenues:					
Local sources:					
Local tax	\$ 7,293,160	1,142,682	2,532,522	450,332	11,418,696
Tuition	880,470	-	-	-	880,470
Other	337,641	11,461	119,321	724,842	1,193,265
Intermediate sources	30,346	-	-	-	30,346
State sources	11,393,402	-	-	-	11,393,402
Federal sources	677,010	-	-	-	677,010
Total revenues	20,612,029	1,154,143	2,651,843	1,175,174	25,593,189
Expenditures:					
Current:					
Instruction:					
Regular instruction	8,272,925	-	-	322,590	8,595,515
Special instruction	2,643,627	-	-	-	2,643,627
Other instruction	2,285,576	-	-	709,100	2,994,676
	13,202,128	-	-	1,031,690	14,233,818
Support services:					
Student services	393,382	-	-	782	394,164
Instructional staff services	1,240,669	-	-	469	1,241,138
Administration services	1,496,164	-	447,781	5,112	1,949,057
Operation and maintenance of plant services	1,831,048	-	-	123,416	1,954,464
Transportation services	816,335	-	-	29,133	845,468
	5,777,598	-	447,781	158,912	6,384,291
Other expenditures:					
Facilities acquisition	-	-	304,445	-	304,445
Long-term debt:					
Principal	-	1,685,000	-	-	1,685,000
Interest and fiscal charges	-	689,481	-	-	689,481
Discounts	-	75,354	-	-	75,354
AEA flowthrough	818,473	-	-	-	818,473
	818,473	2,449,835	304,445	-	3,572,753
Total expenditures	19,798,199	2,449,835	752,226	1,190,602	24,190,862
Excess (deficiency) of revenues over (under) expenditures	813,830	(1,295,692)	1,899,617	(15,428)	1,402,327

Exhibit E**Pella Community School District
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
Year ended June 30, 2012**

	General	Debt Service	Capital Projects	Non-major Governmental	Total
Other financing sources (uses):					
Proceeds from sale of assets	3,465	-	-	-	3,465
Proceeds from issuance of bonds	-	9,660,000	-	-	9,660,000
Operating transfers in	-	1,159,502	-	-	1,159,502
Operating transfers out	-	-	(1,159,502)	-	(1,159,502)
Total other financing sources (uses)	3,465	10,819,502	(1,159,502)	-	9,663,465
Net change in fund balances	817,295	9,523,810	740,115	(15,428)	11,065,792
Fund balances beginning of year	2,316,295	70,069	1,101,337	633,715	4,121,416
Fund balances end of year	\$ 3,133,590	9,593,879	1,841,452	618,287	15,187,208

See notes to financial statements.

Exhibit F

Pella Community School District
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds to the Statement of Activities
Year ended June 30, 2012

Net change in fund balances - total governmental funds (Exhibit E) **\$ 11,065,792**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays:

From facilities acquisition	\$ 1,009,795	
Less current year depreciation	<u>(1,591,852)</u>	(582,057)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but increases long-term liabilities in the Statement of Net Assets. Repayment of long-term debt liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Also, governmental funds report the effect of issuance costs and premiums, whereas these amounts are deferred in and amortized in the Statement of Activities. Current year items are as follows:

Proceeds of bond principal	(9,660,000)	
Discount costs	75,354	
Repayments of bond and note principal	1,685,000	
Amortization of discount costs	<u>(968)</u>	(7,900,614)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

(25,676)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement	132,229	
Compensated absences	28,180	
Other postemployment benefits	<u>(108,408)</u>	52,001

Change in net assets of governmental activities (Exhibit B) **\$ 2,609,446**

Exhibit G**Pella Community School District
Statement of Net Assets
Proprietary Funds
June 30, 2012**

	<u>Non-Major Enterprise Funds</u>
Assets	
Current assets:	
Cash and investments	\$ 464,984
Inventories	34,224
Prepaid expense	8,507
Total current assets	<u>507,715</u>
Noncurrent assets:	
Property and equipment:	
Machinery and equipment	1,041,691
Accumulated depreciation	<u>(825,163)</u>
Total noncurrent assets	<u>216,528</u>
Total assets	<u><u>\$ 724,243</u></u>
Liabilities	
Current liabilities:	
Accounts payable	\$ 4,810
Salaries and benefits payable	15,195
Total current liabilities	<u>20,005</u>
Noncurrent liabilities:	
Other postemployment benefits	<u>35,893</u>
Total liabilities	<u>55,898</u>
Net Assets	
Invested in capital assets, net of related debt	216,528
Unrestricted	<u>451,817</u>
Total net assets	<u>668,345</u>
Total liabilities and net assets	<u><u>\$ 724,243</u></u>

See notes to financial statements.

Exhibit H**Pella Community School District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2012**

	<u>Non-Major Enterprise Funds</u>
Operating revenue:	
Local sources:	
Operating revenues	<u>\$ 770,670</u>
Operating expenses:	
Non-instructional programs:	
Community service operations:	
Other	53,634
Food service operations:	
Depreciation	37,552
Other	1,008,933
Total operating expenses	<u>1,100,119</u>
Operating loss	<u>(329,449)</u>
Non-operating revenue:	
Local sources	46,858
State sources	9,466
Federal sources	325,182
Total non-operating revenue	<u>381,506</u>
Increase in net assets	52,057
Net assets beginning of year	<u>616,288</u>
Net assets end of year	<u><u>\$ 668,345</u></u>

See notes to financial statements.

Exhibit I

Pella Community School District
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2012

	Non-Major Enterprise Funds
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 752,646
Cash received from service tuition, fees and other sources	18,024
Cash payments to employees for services	(499,951)
Cash payments to suppliers for goods or services	(497,657)
Net cash used by operating activities	<u>(226,938)</u>
Cash flows from non-capital financing activities:	
Operating grants and contributions received	46,304
State grants received	9,466
Federal grants received	261,156
Net cash provided by non-capital financing activities	<u>316,926</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(5,840)
Net cash used by capital and related financing activities	<u>(5,840)</u>
Cash flows from investing activities:	
Interest on investments	554
Proceeds from maturity of investments	35,000
Purchase of investments	(37,682)
Net cash provided by investing activities	<u>(2,128)</u>
Net increase in cash and cash equivalents	82,020
Cash and cash equivalents at beginning of year	<u>345,283</u>
Cash and cash equivalents at end of year	<u><u>\$ 427,303</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (329,449)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities	64,026
Depreciation	37,552
(Increase) in inventories	(7,053)
(Increase) in prepaid expense	(3,883)
Increase in accounts payable	3,484
(Decrease) in salaries and benefits payable	(316)
(Decrease) in compensated absences payable	(854)
Increase in other postemployment benefits payable	9,555
Net cash used by operating activities	<u><u>\$ (226,938)</u></u>
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:	
Current assets:	
Cash and investments	\$ 464,984
Less items not meeting definition of cash equivalents:	
Certificates of deposit	(37,681)
Cash and cash equivalents at year end	<u><u>\$ 427,303</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2012, the District received federal commodities valued at \$64,026.

See notes to financial statements.

Exhibit J**Pella Community School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012**

	Private Purpose Trust	Expendable Trust
	Scholarship	Special Projects
Assets		
Current assets:		
Cash and pooled investments	\$ 98,601	71,237
Total assets	98,601	71,237
Liabilities		
Current liabilities:		
Accounts payable	-	840
Total liabilities	-	840
Net assets		
Held in trust for scholarships and special projects	98,601	70,397
Total net assets	\$ 98,601	70,397

See notes to financial statements.

Exhibit K**Pella Community School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2012**

	Private Purpose Trust	Expendable Trust
	Scholarship	Special Projects
Additions:		
Local sources:		
Contributions and donations	\$ -	45,838
Interest	1,052	-
Total revenues	1,052	45,838
Deductions:		
Instruction:		
Supplies	-	46,674
Other	4,000	-
Total expenditures	4,000	46,674
Change in net assets	(2,948)	(836)
Net assets beginning of year	101,549	71,233
Net assets end of year	\$ 98,601	70,397

See notes to financial statements.

(1) Summary of Significant Accounting Policies

Pella Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades pre-kindergarten through twelve. The geographic area served includes the City of Pella, Iowa. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Pella Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Pella Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Marion County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds. Combining schedules are also included for the Capital Project Fund accounts.

Fund accounting - The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, reserves, fund balance/net assets, revenues and expenditures or expenses, as appropriate. The District has the following funds:

Governmental Fund Types: Governmental fund types are those funds through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

General Fund: The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

Debt Service Fund: The Debt Service Fund is utilized to account for property tax and other revenues to be used for the payment of interest and principal on the District's general long-term debt.

Capital Projects Fund: The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and other capital assets.

The other governmental funds of the District are considered non-major and are as follows:

Special Revenue Funds: The Special Revenue Funds account for the revenue sources that are legally restricted to expenditures for specific purposes. These funds consist of the following:

Student Activity Funds: This fund accounts for transactions that occur due to student-related activities from groups and organizations such as athletic and activity events, fundraising and other extra-curricular or co-curricular activities.

Management Fund: This fund is authorized by Iowa Code Section 298.4 and accounts for transactions related to unemployment, early retirement, judgments and settlements and the cost of liability insurance as it relates to property and casualty.

Proprietary Fund Types: Proprietary fund types are used to account for the District's ongoing organizations and activities which are similar to those often found in the private sector. The measurement focus is upon income determination, financial position and cash flows. The following are the District's proprietary funds:

Enterprise Funds: Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the District has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the District has elected to apply all applicable Financial Accounting Standards Board (FASB) pronouncements, issued on or before November 30, 1989, except for those pronouncements which conflict with or contradict GASB pronouncements.

The following enterprise funds of the District are considered non-major:

Community Services: This fund accounts for child after school operations and for community-family service operations authorized by Iowa Code 298A.12 and 279.49.

Nutrition Services: This fund accounts for transactions related to the school lunch, breakfast and summer food programs authorized by Iowa Code 283A.

Fiduciary Fund Types: Fiduciary funds account for assets held by the District in a trustee or agency capacity for the benefit of others and cannot be used to support District activities. The District has the following fiduciary fund types:

Private Purpose Trust Fund: These funds account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

Expendable Trust Fund: These funds account for assets held by the District for special projects of the District with funds given by individuals, private organizations and other governments.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus" and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

The proprietary funds of the District apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable – Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2011.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expense when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business type activities columns in the Government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,000
Buildings	1,000
Improvements other than buildings	1,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred and Unearned Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue consists of unspent grant proceeds as well as the succeeding year's property tax receivable.

Unearned revenue on the Statement of Net Assets consists of unspent grant proceeds as well as the succeeding year's property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2012. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities – In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity – In the governmental fund financial statements, fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts which can be used only for specific purposes determined pursuant to constraints formally imposed by the Board of Education through resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same action it employed to commit those amounts.

Unassigned – All amounts not included in other spendable classifications.

Restricted Net Assets – In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2012, expenditures did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

(3) Interfund Transfers

The *detail* of interfund transfers for the year ended June 30, 2012 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 1,159,502
		<u>\$ 1,159,502</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2012 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,690,900	-	-	1,690,900
Construction in progress	-	-	-	-
Total capital assets not being depreciated	1,690,900	-	-	1,690,900
Capital assets being depreciated:				
Buildings	35,687,104	261,419	-	35,948,523
Improvements other than buildings	3,781,458	47,744	-	3,829,202
Furniture and equipment	9,547,997	700,632	3,962	10,244,667
Total capital assets being depreciated	49,016,559	1,009,795	3,962	50,022,392
Less accumulated depreciation for:				
Buildings	10,021,836	872,077	-	10,893,913
Improvements other than buildings	978,614	214,707	-	1,193,321
Furniture and equipment	8,165,049	505,068	3,962	8,666,155
Total accumulated depreciation	19,165,499	1,591,852	3,962	20,753,389
Total capital assets being depreciated, net	29,851,060	(582,057)	-	29,269,003
Governmental activities capital assets, net	\$ 31,541,960	(582,057)	-	30,959,903
Business type activities:				
Furniture and equipment	\$ 1,035,851	5,840	-	1,041,691
Less accumulated depreciation	787,611	37,552	-	825,163
Business type activities capital assets, net	\$ 248,240	(31,712)	-	216,528

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular	\$ 810,227
Special education	92,442
Other	57,777

Support services:

Student support	12,288
Instructional staff	88,552
Administration	11,605
Operation and maintenance of plant	78,185
Transportation	158,149
Non-instructional programs	86,187

1,395,412

Unallocated

196,440

Total depreciation expense - governmental activities

\$ 1,591,852

Business type activities:

Food services

\$ 37,552

Pella Community School District
Notes to Financial Statements
June 30, 2012

(5) Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2012 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Governemntal activities:					
General obligation bonds	\$ 12,730,000	9,660,000	1,070,000	21,320,000	1,120,000
Revenue bonds	2,030,000	-	615,000	1,415,000	690,000
Early retirement	757,705	129,176	282,182	604,699	261,405
Other postemployment benefits	298,840	108,408	-	407,248	-
Total governmental activities	<u>\$ 15,816,545</u>	<u>9,897,584</u>	<u>1,967,182</u>	<u>23,746,947</u>	<u>2,071,405</u>
Business type activities:					
Other postemployment benefits	\$ 26,338	9,555	-	35,893	-

General Obligation Bonds

Details of the District's June 30, 2012 general obligation bonded indebtedness are as follows:

Bond Issue of June 1, 2005				
Year ending June 30,	Interest Rates	Principal	Interest	Total
2013	4.00%	590,000	511,475	1,101,475
2014	4.00%	680,000	487,875	1,167,875
2015	4.00%	715,000	460,675	1,175,675
2016	4.00%	750,000	432,075	1,182,075
2017	4.50%	775,000	402,075	1,177,075
2018	4.50%	810,000	367,200	1,177,200
2019	4.50%	850,000	330,750	1,180,750
2020	5.00%	885,000	292,500	1,177,500
2021	5.00%	925,000	248,250	1,173,250
2022	5.00%	970,000	202,000	1,172,000
2023	5.00%	1,015,000	153,500	1,168,500
2024	5.00%	1,065,000	102,750	1,167,750
2025	4.50%	1,100,000	49,500	1,149,500
Subtotal		11,130,000	4,040,625	15,170,625

Refunding Bond Issue of November 1, 2008				
Year ending June 30,	Interest Rates	Principal	Interest	Total
2013	3.73%	530,000	19,769	549,769
Subtotal		530,000	19,769	549,769

Pella Community School District
Notes to Financial Statements
June 30, 2012

Crossover Refunding Bond Issue of May 1, 2012				
Year ending June 30,	Interest Rates	Principal	Interest	Total
2013		-	189,329	189,329
2014		-	174,765	174,765
2015		-	174,765	174,765
2016	1.10%	915,000	174,765	1,089,765
2017	1.10%	920,000	164,700	1,084,700
2018	1.35%	925,000	154,580	1,079,580
2019	1.55%	945,000	142,092	1,087,092
2020	1.75%	955,000	127,445	1,082,445
2021	1.90%	965,000	110,732	1,075,732
2022	2.10%	985,000	92,398	1,077,398
2023	2.20%	1,000,000	71,712	1,071,712
2024	2.35%	1,025,000	49,713	1,074,713
2025	2.50%	1,025,000	25,625	1,050,625
	Subtotal	9,660,000	1,652,621	11,312,621
Total				
Year ending June 30,		Principal	Interest	Total
2013		1,120,000	720,573	1,840,573
2014		680,000	662,640	1,342,640
2015		715,000	635,440	1,350,440
2016		1,665,000	606,840	2,271,840
2017		1,695,000	566,775	2,261,775
2018		1,735,000	521,780	2,256,780
2019		1,795,000	472,842	2,267,842
2020		1,840,000	419,945	2,259,945
2021		1,890,000	358,982	2,248,982
2022		1,955,000	294,398	2,249,398
2023		2,015,000	225,212	2,240,212
2024		2,090,000	152,463	2,242,463
2025		2,125,000	75,125	2,200,125
Total		\$ 21,320,000	5,713,015	27,033,015

Crossover Refunding Bonds May 1, 2012

On May 1, 2012, the District issued \$9,660,000 in general obligation bonds to advance refund \$9,145,000 of outstanding general obligation bonds dated June 1, 2005 in a crossover type refunding. The proceeds of the refunding issue have been placed in an irrevocable escrow account and have been invested in U.S. Government obligations which have been certified to be sufficient to pay all principal and interest due on the Series 2005 bonds ("refunding bonds") after June 1, 2015 and interest on the Series 2012 bonds ("refunding bonds") through June 1, 2015. The new refunding bonds have been added to the appropriate financial statements and schedules. The district remains contingently liable in the remote possibility the account is insufficient to pay the refunding bonds. At June 30, 2012, \$11,130,000 of such bonds are outstanding. The district remains liable for the principal and interest on the non-callable portion of the bonds through fiscal year end 2015. The escrow fund pays interest on the new advance refunding bonds until that time. No advance payments on the June 1, 2005 general obligation bonds were paid in the current year and final payment to pay off these bonds is expected to take place June 1, 2015. This advance refunding was undertaken to reduce total debt service payments over the next 13 years by \$955,557 and resulted in an economic gain of \$816,170.

Revenue Bonds

Details of the District's June 30, 2012 local option sales and services tax revenue bonded indebtedness are as follows:

Pella Community School District
Notes to Financial Statements
June 30, 2012

Bond Issue of August 1, 2004				
Year ending June 30,	Interest Rates	Principal	Interest	Total
2013	3.75%	200,000	15,393	215,393
2014	3.85%	205,000	7,892	212,892
Subtotal		405,000	23,285	428,285
Bond Issue of May 1, 2009				
Year ending June 30,	Interest Rates	Principal	Interest	Total
2013	3.125%	490,000	32,862	522,862
2014	3.375%	520,000	17,550	537,550
Subtotal		1,010,000	50,412	1,060,412
Total				
Year ending June 30,		Principal	Interest	Total
2013		690,000	48,255	738,255
2014		725,000	25,442	750,442
Total		\$ 1,415,000	73,697	1,488,697

The District has pledged future statewide sales, services and use tax revenues to repay the \$1,750,000 bonds issued in August, 2004 and the \$2,135,000 bonds issued in May, 2009. The bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2014. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. The total principal and interest remaining to be paid on the August, 2004 and May, 2009 notes is \$428,285 and \$1,060,412, respectively. For the current year, principal of \$190,000 and interest of \$22,232 was paid on the August, 2004 bonds and principal of \$425,000 and interest of \$44,550 was paid on the May, 2009 bonds. Total statewide sales, services and use tax revenues were \$1,858,411.

The resolution providing for the issuance of the statewide sales, services and use tax revenue bonds includes the following provisions:

- a) \$175,000 of the proceeds from the issuance of the revenue bonds issued in August, 2004 and \$213,500 of the proceeds from the issuance of the revenue bonds issued in May, 2009 must be deposited to a Reserve Account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the Sinking Account. The balance of the proceeds shall be deposited to the Project Account.
- b) All proceeds from the statewide sales, services and use tax shall be placed in a Revenue Account.
- c) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

Early Retirement

The District offers a voluntary early retirement plan to its employees. Eligible employees must have completed at least ten years of full-time service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Education.

The early retirement incentive for each eligible employee is based on a percentage of the employee's final year's salary. The percentage used for calculation is based on years of service to the District. The percentage varies from 38% for 10 years of service to 57% for 15 or more years of experience.

Early retirement benefits are paid monthly over the number of months until the employee turns 65. If the retiree is of an age that these monthly payments would exceed 36 months, the retiree may request payment over 36 months.

At June 30, 2012, the District has obligations to 24 participants with a total liability of \$604,699. Actual early retirement expenditures for the year ended June 30, 2012 totaled \$282,182.

(6) Other Post-Employment Benefits (OPEB)

Plan Description - The District operates a retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 321 active and 31 retired members in the plan. Participants must be age 55 or older at retirement and must have been employed full time by the District for a minimum of 10 years within the 12 consecutive years prior to the retirement year.

The medical/prescription drug coverage is purchased through an outside provider. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2012, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$	138,411
Interest on net OPEB obligation		8,129
Adjustment to ARC		(11,215)
Annual OPEB cost		135,325
Contributions made		(17,362)
Increase in net OPEB obligation		117,963
Net OPEB obligation beginning of year		325,178
Net OPEB obligation end of year	\$	443,141

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2010. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2012.

For the year ended June 30, 2012, the District contributed \$17,362 to the medical plan. Plan members eligible for benefits contributed \$47,056 towards premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2012 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 133,198	38.40%	\$ 210,507
June 30, 2011	135,325	13.33%	325,178
June 30, 2012	135,325	12.83%	443,141

Funded Status and Funding Progress - As of July 1, 2010, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2012, the actuarial accrued liability was \$938,941, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$938,941. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$11,553,658, and the ratio of the UAAL to covered payroll was 8.1%. As of June 30, 2012, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2010 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumption includes a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%. The ultimate medical trend rate is 6%.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2009 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2009.

Projected claim costs of the medical plan are \$358 per month for retirees who have attained age 65. The salary increase rate was assumed to be 2.5% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 5.38% of their annual covered salary and the District is required to contribute 8.07% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$1,005,537, 854,509, and \$819,555, respectively, equal to the required contributions for each year.

(8) Risk Management

Pella Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$818,473 for the year ended June 30, 2012 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Subsequent Event

A complaint was filed with the Iowa Civil Rights Commission by a former employee of the District on August 9, 2012.

Required Supplementary Information

Pella Community School District
Budgetary Comparison Schedule of Revenues, Expenditures and Change in Balances
Budget and Actual - All Governmental Funds and Proprietary Funds
Required Supplementary Information
Year ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts Original And Final	Final to Actual Variance- Positive (Negative)
Revenues:					
Local sources	\$ 13,492,431	817,528	14,309,959	13,719,047	590,912
Intermediate sources	30,346	-	30,346	24,000	6,346
State sources	11,393,402	9,466	11,402,868	11,534,242	(131,374)
Federal sources	677,010	325,182	1,002,192	818,000	184,192
Total revenues	25,593,189	1,152,176	26,745,365	26,095,289	650,076
Expenditures:					
Instruction	14,233,818	-	14,233,818	14,875,000	641,182
Support services	6,384,291	-	6,384,291	6,174,000	(210,291)
Noninstructional programs	-	1,100,119	1,100,119	1,055,000	(45,119)
Other expenditures	3,572,753	-	3,572,753	3,729,415	156,662
Total expenditures	24,190,862	1,100,119	25,290,981	25,833,415	542,434
Excess (deficiency) of revenues over (under) expenditures	1,402,327	52,057	1,454,384	261,874	1,192,510
Other financing sources, net	9,663,465	-	9,663,465	2,000	9,661,465
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	11,065,792	52,057	11,117,849	263,874	10,853,975
Balances beginning of year	4,121,416	616,288	4,737,704	3,813,296	924,408
Balances end of year	\$ 15,187,208	668,345	15,855,553	4,077,170	11,778,383

See accompanying independent auditor's report.

Pella Community School District
Notes to Required Supplementary Information - Budgetary Reporting
Year Ended June 30, 2012

This budgetary comparison is presented as Required Supplementary Information in accordance with *Governmental Accounting Standards* Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District did not adopt a budget amendment.

During the year ended June 30, 2012, expenditures in the support services and non instructional program functions exceeded the amounts budgeted.

Pella Community School District
Schedule of Funding Progress for the Retiree Health Plan
Required Supplementary Information
Year ended June 30, 2012

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	July 1, 2008	\$ -	835,783	835,783	0.0%	\$ 10,942,327	7.6%
2010	July 1, 2008	-	835,783	835,783	0.0%	11,192,612	7.5%
2011	July 1, 2010	-	935,693	935,693	0.0%	11,304,748	8.3%
2012	July 1, 2010	-	938,941	938,941	0.0%	11,553,658	8.1%

See Note 6 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

See accompanying independent auditor's report.

Other Supplementary Information

**Pella Community School District
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2012**

See accompanying independent auditor's report.

Schedule 2

Pella Community School District
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
Year Ended June 30, 2012

	Special Revenue Funds		
	Management	Student Activity	Total
Revenues:			
Local sources:			
Local tax:			
Property tax	\$ 445,080	-	445,080
Utility tax replacement excise tax	4,955	-	4,955
Mobile home tax	297	-	297
	450,332	-	450,332
Other local sources:			
Interest on investments	-	851	851
Student activities	-	626,676	626,676
Other	-	97,315	97,315
	-	724,842	724,842
Total revenues	450,332	724,842	1,175,174
Expenditures:			
Current:			
Instruction:			
Regular	322,590	-	322,590
Other	-	709,100	709,100
	322,590	709,100	1,031,690
Support services:			
Student services	782	-	782
Instructional staff services	469	-	469
Administration	5,112	-	5,112
Operation and maintenance of plant	123,416	-	123,416
Student transportation	29,133	-	29,133
	158,912	-	158,912
Total expenditures	481,502	709,100	1,190,602
Excess (deficiency) of revenues over (under) expenditures	(31,170)	15,742	(15,428)
Fund balances beginning of year	401,431	232,284	633,715
Fund balances end of year	\$ 370,261	248,026	618,287

See accompanying independent auditor's report.

Schedule 3

**Pella Community School District
Schedule of Changes in Special Revenue Fund, Student Activity Accounts
Year ended June 30, 2012**

Account	Balance Beginning of Year	Transfers In (Out)	Revenues	Expendi- tures	Balance End of Year
Booster/PTO Concessions	\$ -	(563)	89,797	82,619	6,615
HS Drama	764	-	2,968	3,689	43
HS Speech	414	1,259	1,973	3,646	-
HS Debate	-	80	70	150	-
HS Vocal	17,322	-	72,632	68,856	21,098
HS Instr. Music	5,756	1,894	5,589	13,239	-
Marching Dutch Invitational	2,534	-	22,626	16,834	8,326
HS Instr. Music Fundraiser	21,069	-	-	11,334	9,735
Orchestra Trip Account	55	-	-	-	55
Orchestra	559	1,721	313	2,593	-
Vocal Music Trip Account	4,027	-	34,723	33,497	5,253
Band Uniform	28,275	-	18,222	15,149	31,348
Athletics	1,699	15,758	27,975	45,432	-
HS Boys Bask.	-	(8,375)	11,628	3,253	-
HS Football	-	(5,265)	52,401	47,136	-
HS Boys Soccer	-	584	7,299	7,883	-
HS Baseball	-	1,801	5,340	7,141	-
HS Track	-	2,957	2,036	4,993	-
HS Boys Cross Country	-	2,833	144	2,977	-
HS Boys Tennis	-	947	50	997	-
HS Boys Golf	-	2,852	422	3,274	-
HS Wrestling	-	(830)	4,002	3,172	-
HS Girls Basketball	-	(3,339)	10,538	7,199	-
HS Volleyball	-	579	4,709	5,288	-
HS Girls Soccer	-	(2,354)	6,913	4,559	-
HS Softball	-	(2,397)	4,961	2,564	-
HS Girls Track	-	2,189	4,454	6,643	-
HS Girls Cross Country	-	1,661	138	1,799	-
HS Girls Tennis	-	456	140	596	-
HS Girls Golf	-	1,274	24	1,298	-
HS Activity Tickets	-	(21,004)	21,004	-	-
HS Miscellaneous Activity	5,393	(5,890)	4,049	571	2,981
Girls Soccer Club	1,202	-	6,030	6,552	680
Girls Track Club	2,561	-	2,115	2,434	2,242
Boys Track Club	-	(108)	2,155	2,047	-
Boys Soccer Club	4,763	-	10,992	10,242	5,513
Boys Golf Club	7	698	345	1,050	-
Pella Connection Club	1,975	-	487	1,123	1,339
HS Cheerleaders	2,036	-	6,774	8,042	768
HS Vending	3,526	-	2,788	3,076	3,238
HS Testing	1,937	2,316	4,918	5,937	3,234
Class of 2007	75	(75)	-	-	-
Class of 2009	75	(75)	-	-	-
Class of 2011	1,787	-	-	-	1,787
Class of 2012	1,228	52	1,552	2,832	-
Class of 2013	1,562	98	3,506	1,066	4,100
Class of 2014	147	-	-	-	147
Class of 2015	911	-	103	-	1,014
Softball Concessions	5,562	-	6,643	10,072	2,133
Baseball Concessions	1,028	-	23,956	15,484	9,500
Boys Basketball Concessions	4,310	-	3,904	5,078	3,136
Girls Golf Concessions	81	-	-	30	51
Drill Team	-	(5,535)	29,550	19,368	4,647
FFA	11,061	-	25,542	23,541	13,062

Schedule 3

**Pella Community School District
Schedule of Changes in Special Revenue Fund, Student Activity Accounts
Year ended June 30, 2012**

Account	Balance Beginning of Year	Transfers In (Out)	Revenues	Expendi- tures	Balance End of Year
FHA	7,909	-	2,527	70	10,366
Humanities	645	-	-	-	645
Interest	62	-	1,256	53	1,265
Technology Student Association	6,145	-	912	2,293	4,764
National Honor Society	77	-	-	-	77
Pep Club	406	-	-	-	406
HS PE Heart Club	1,496	-	-	-	1,496
French Club	1,612	-	-	-	1,612
HS Student Council	310	-	2,383	2,191	502
Publications	44,590	-	40,659	32,651	52,598
HS Weight Club	1,976	-	1	166	1,811
HS Football Jerseys	10,942	-	5,322	16,189	75
Football Parents	4,992	-	21,896	20,890	5,998
Cross Country Club	-	-	3,166	2,456	710
Tennis Club	459	-	2,512	1,693	1,278
Wrestling Club	134	-	137	-	271
Girls Basketball Club	-	(170)	6,408	4,755	1,483
Volleyball Club	157	-	3,191	1,729	1,619
After Prom Club	-	-	3,632	-	3,632
MS Vocal Music	1,227	-	5,905	4,547	2,585
MS Instrumental Music	3,404	-	1,225	4,167	462
MS Athletics	-	5,788	-	5,788	-
MS Boys Basketball	-	(910)	2,537	1,627	-
MS Football	-	7,791	2,420	10,211	-
MS Boys Track	-	297	767	1,064	-
MS Wrestling	-	241	729	970	-
MS Girls Basketball	-	(371)	1,581	1,210	-
MS Volleyball	-	59	1,910	1,969	-
MS Softball	-	1,840	-	1,840	-
MS Girls Track	-	1,718	1,114	2,832	-
MS Activity Tickets	-	(2,280)	2,280	-	-
MS Cheerleaders	20	9	-	29	-
MS Library/Book Fair	134	619	9,184	9,937	-
MS History Day Club	21	-	-	-	21
MS Gifted and Talented	700	-	-	450	250
MS Activity	3,564	(619)	23,827	22,542	4,230
MS Home Ec	821	-	634	595	860
MS Language Arts	112	-	-	-	112
MS Social Studies	304	-	-	-	304
MS AR Store	69	-	-	-	69
MS Publications	628	-	4,186	3,112	1,702
MS Student Council	1,678	-	-	195	1,483
Elementary PTO	130	-	17,894	18,024	-
Lincoln Elementary	-	(211)	1,853	719	923
Madison Elementary	3,012	-	827	1,752	2,087
Jefferson Elementary	748	-	3,467	4,029	186
Jefferson Recycling	99	-	-	-	99
Totals	\$ 232,284	-	724,842	709,100	248,026

See accompanying independent auditor's report.

Schedule 4

Pella Community School District
Combining Balance Sheet
Capital Project Accounts
June 30, 2012

		Capital Projects		
		Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Assets				
Cash and pooled investments		\$ 1,312,426	271,901	1,584,327
Receivables:				
Property tax:				
Current year delinquent		-	6,391	6,391
Succeeding year		-	696,030	696,030
Due from other governments		265,912	13	265,925
Total assets		\$ 1,578,338	974,335	2,552,673
Liabilities and Fund Balances				
Liabilities:				
Accounts Payable		\$ -	15,191	15,191
Deferred revenue:				
Succeeding year property tax		-	696,030	696,030
Total liabilities		-	711,221	711,221
Fund balances:				
Restricted for:				
Debt service		388,500	-	388,500
School infrastructure		1,189,838	-	1,189,838
Physical plant and equipment		-	263,114	263,114
Total fund balances		1,578,338	263,114	1,841,452
Total liabilities and fund balances		\$ 1,578,338	974,335	2,552,673

See accompanying independent auditor's report.

Pella Community School District
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Capital Project Accounts
Year ended June 30, 2012

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local tax:			
Property tax	\$ -	666,847	666,847
Utility tax replacement excise tax	-	6,845	6,845
Mobile home tax	-	419	419
Statewide sales, services and use tax	1,858,411	-	1,858,411
	<u>1,858,411</u>	<u>674,111</u>	<u>2,532,522</u>
Other local sources:			
Interest on investments	954	-	954
Other	-	118,367	118,367
	<u>954</u>	<u>118,367</u>	<u>119,321</u>
Total revenues	<u>1,859,365</u>	<u>792,478</u>	<u>2,651,843</u>
Expenditures:			
Current:			
Support Services:			
Administration:			
Services	-	49,711	49,711
Supplies	-	22,550	22,550
Property	-	375,520	375,520
Total support services	-	<u>447,781</u>	<u>447,781</u>
Other expenditures:			
Facilities acquisition and construction:			
Services	6,737	297,072	303,809
Other	-	636	636
	<u>6,737</u>	<u>297,708</u>	<u>304,445</u>
Total expenditures	<u>6,737</u>	<u>745,489</u>	<u>752,226</u>
Excess (deficiency) of revenues over (under) expenditures	1,852,628	46,989	1,899,617
Other financing uses:			
Operating transfers out	(1,159,502)	-	(1,159,502)
Excess of revenues over expenditures and other financing uses	693,126	46,989	740,115
Fund balances beginning of year	885,212	216,125	1,101,337
Fund balances end of year	<u>\$ 1,578,338</u>	<u>263,114</u>	<u>1,841,452</u>

See accompanying independent auditor's report.

Schedule 6
Pella Community School District
Combining Statement of Net Assets
Proprietary Funds
June 30, 2012

	Non-major Enterprise Funds		
	Community Services	Nutrition Services	Total
Assets			
Current assets:			
Cash and investments	\$ 22,048	442,936	464,984
Inventories	-	34,224	34,224
Prepaid expense	-	8,507	8,507
Total current assets	22,048	485,667	507,715
Noncurrent assets:			
Property and equipment:			
Machinery and equipment	-	1,041,691	1,041,691
Accumulated depreciation	-	(825,163)	(825,163)
Total noncurrent assets	-	216,528	216,528
Total assets	\$ 22,048	702,195	724,243
Liabilities			
Current liabilities:			
Accounts payable	\$ 39	4,771	4,810
Salaries and benefits payable	-	15,195	15,195
Total current liabilities	39	19,966	20,005
Noncurrent liabilities:			
Other postemployment benefits	-	35,893	35,893
Total liabilities	39	55,859	55,898
Net Assets			
Invested in capital assets, net of related debt	-	216,528	216,528
Unrestricted	22,009	429,808	451,817
Total net assets	22,009	646,336	668,345
Total liabilities and net assets	\$ 22,048	702,195	724,243

See accompanying independent auditor's report.

Schedule 7

**Pella Community School District
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2012**

	Non-major Enterprise Funds		
	Community Services	Nutrition Services	Total
Operating revenues:			
Local sources:			
Other local sources:			
Community service tuition and fees	\$ 17,067	-	17,067
Sale of lunches and breakfasts	-	752,646	752,646
Other service revenue	-	957	957
Total operating revenues	17,067	753,603	770,670
Operating expenses:			
Non-instructional programs:			
Community service operations:			
Salaries	26,980	-	26,980
Benefits	4,178	-	4,178
Services	650	-	650
Supplies	21,826	-	21,826
	53,634	-	53,634
Food services operations:			
Salaries	-	350,028	350,028
Benefits	-	127,150	127,150
Services	-	9,002	9,002
Supplies	-	513,190	513,190
Other	-	9,563	9,563
Depreciation	-	37,552	37,552
	-	1,046,485	1,046,485
Total operating expenses	53,634	1,046,485	1,100,119
Operating loss	(36,567)	(292,882)	(329,449)
Non-operating revenues:			
Interest income	-	554	554
Operating grants and donations	46,304	-	46,304
State lunch and breakfast program claims	-	9,466	9,466
National School Lunch Program	-	234,270	234,270
School Breakfast Program	-	26,886	26,886
Food distribution	-	64,026	64,026
Total non-operating revenues	46,304	335,202	381,506
Increase in net assets	9,737	42,320	52,057
Net assets beginning of year	12,272	604,016	616,288
Net assets end of year	\$ 22,009	646,336	668,345

See accompanying independent auditor's report.

Schedule 8

Pella Community School District Combining Statement of Cash Flows Proprietary Funds Year Ended June 30, 2012

	Non-major Enterprise Funds		
	Community Services	Nutrition Services	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ -	752,646	752,646
Cash received from service tuition, fees and other sources	17,067	957	18,024
Cash payments to employees for services	(31,158)	(468,793)	(499,951)
Cash payments to suppliers for goods or services	(22,670)	(474,987)	(497,657)
Net cash used by operating activities	(36,761)	(190,177)	(226,938)
Cash flows from non-capital financing activities:			
Operating grants and contributions	46,304	-	46,304
State grants received	-	9,466	9,466
Federal grants received	-	261,156	261,156
Net cash provided by operating activities	46,304	270,622	316,926
Cash flows from capital and related financing activities:			
Acquisition of capital assets	-	(5,840)	(5,840)
Net cash used by capital and related financing activities	-	(5,840)	(5,840)
Cash flows from investing activities:			
Interest on investments	-	554	554
Proceeds from maturity of investments	-	35,000	35,000
Purchase of investments	-	(37,682)	(37,682)
Net cash provided by investing activities	-	(2,128)	(2,128)
Net increase in cash and cash equivalents	9,543	72,477	82,020
Cash and cash equivalents at beginning of year	12,505	332,778	345,283
Cash and cash equivalents at end of year	\$ 22,048	405,255	427,303
Reconciliation of operating loss to net cash used by operating activities:			
Operating loss	\$ (36,567)	(292,882)	(329,449)
Adjustments to reconcile operating loss to net cash used by operating activities:			
Commodities	-	64,026	64,026
Depreciation	-	37,552	37,552
(Increase) in inventories	-	(7,053)	(7,053)
(Increase) in prepaid expense	-	(3,883)	(3,883)
Increase in accounts payable	(194)	3,678	3,484
(Decrease) in salaries and benefits payable	-	(316)	(316)
(Decrease) in compensated absences payable	-	(854)	(854)
Increase in other postemployment benefits payable	-	9,555	9,555
Net cash used by operating activities	\$ (36,761)	(190,177)	(226,938)

Schedule 8**Pella Community School District
Combining Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2012**

	Non-major Enterprise Funds		
	Community Services	Nutrition Services	Total
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:			
Current assets:			
Cash and investments	\$ 22,048	442,936	464,984
Less items not meeting definition of cash equivalents:			
Certificates of deposit	-	(37,681)	(37,681)
Cash and cash equivalents at year end	<u>\$ 22,048</u>	<u>405,255</u>	<u>427,303</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2012, the District received federal commodities valued at \$64,026.

See accompanying independent auditor's report.

Schedule 9

Pella Community School District
Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds
For the Last Ten Years

	Modified Accrual Basis									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Revenues:										
Local sources:										
Local tax	\$ 11,418,696	10,462,055	10,316,935	9,924,433	8,759,431	8,331,502	8,227,665	7,744,098	7,073,282	6,725,009
Tuition	880,470	662,720	696,529	614,100	498,004	623,795	592,952	601,419	489,605	201,329
Other	1,193,265	1,234,151	1,065,637	948,695	1,041,828	1,358,267	1,501,637	755,499	672,917	1,207,656
Intermediate sources	30,346	29,017	54,462	41,897	18,785	37,523	18,082	15,000	15,000	18,428
State sources	11,393,402	10,597,204	8,834,772	10,489,005	10,318,253	9,168,676	8,531,765	7,999,448	7,781,624	7,426,618
Federal sources	677,010	1,482,236	1,014,007	717,166	477,670	424,983	521,521	430,845	446,378	344,089
Total	\$ 25,593,189	24,467,383	21,982,342	22,735,296	21,113,971	19,944,746	19,393,622	17,546,309	16,478,806	15,923,129
Expenditures:										
Instruction:										
Regular	\$ 8,595,515	8,252,456	8,120,373	8,052,519	7,476,168	6,830,022	6,329,880	6,275,810	6,321,718	6,025,245
Special	2,643,627	2,480,176	2,361,109	2,332,868	2,344,069	2,028,208	1,781,523	2,183,808	2,062,595	1,859,024
Other	2,994,676	3,169,367	2,708,732	2,273,264	2,001,692	1,961,808	1,922,355	1,207,063	1,285,721	1,483,823
Support services:										
Student	394,164	365,025	385,386	412,003	386,123	302,002	306,129	325,470	499,204	484,767
Instructional staff	1,241,138	958,151	676,907	661,268	753,039	762,889	809,570	794,337	677,684	628,426
Administration	1,949,057	1,626,341	1,954,006	1,737,873	1,634,630	1,462,779	1,643,583	1,284,737	1,136,764	1,103,990
Operation and maintenance of plant services	1,954,464	1,904,435	1,759,611	1,809,861	1,847,350	1,706,062	1,675,658	1,489,740	1,639,083	1,383,316
Transportation	845,468	901,297	992,893	1,031,167	1,113,573	1,130,895	1,028,477	693,693	699,316	553,744
Non-instructional programs	-	-	-	-	-	-	-	296	16,086	11,350
Other expenditures:										
Facilities acquisition	304,445	390,406	2,972,609	1,989,527	2,849,534	9,094,847	4,020,376	1,760,941	597,119	361,383
Long-term debt:										
Principal	1,685,000	1,610,000	1,460,000	4,265,000	1,170,000	1,115,000	1,070,000	995,000	805,000	770,000
Interest and other charges	764,835	696,153	757,001	772,857	833,430	891,941	931,550	386,050	368,831	403,278
AEA flowthrough	818,473	887,814	856,878	781,173	732,846	660,488	610,764	586,232	592,881	604,874
Total	\$ 24,190,862	23,241,621	25,005,505	26,119,380	23,142,454	27,946,941	22,129,865	17,983,177	16,702,002	15,673,220

See accompanying independent auditor's report

Schedule 10
Pella Community School District
Schedule of Expenditures of Federal Awards
Year ended June 30, 2012

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY 11	\$ 26,886
National School Lunch Program	10.555	FY 11	298,295 *
			<u>325,181</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	FY 11	<u>118,188</u>
Vocational Education - Basic Grants to States	84.048	FY 11	<u>29,254</u>
Improving Teacher Quality State Grants	84.367	FY 11	<u>54,580</u>
Grants for State Assessments and Related Activities	84.369	FY 11	<u>16,621</u>
ARRA - Education Jobs Fund	84.410	FY 11	<u>211,275</u>
Area Education Agency (AEA 11):			
Special Education - Grants to States	84.027	FY 11	<u>128,194</u>
Total			<u>\$ 883,293</u>

* Includes \$64,026 of non-cash rewards.

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Pella Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of Pella Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Pella Community School District, Pella, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 17, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of Pella Community School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Pella Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pella Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Pella Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-12 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pella Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Pella Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Pella Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Pella Community School District and other parties to whom Pella Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Pella Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Van Maanen, Sietstra & Meyer, PC

Van Maanen, Sietstra & Meyer, PC
Certified Public Accountants

October 17, 2012



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CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

To the Board of Education of Pella Community School District:

Compliance

We have audited Pella Community School District's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of Pella Community School District's major federal programs for the year ended June 30, 2012. Pella Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Pella Community School District's management. Our responsibility is to express an opinion on Pella Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pella Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Pella Community School District's compliance with those requirements.

In our opinion, Pella Community School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The management of Pella Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Pella Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Pella Community School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a material weakness.

A deficiency in the District's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-12 to be a material weakness.

Pella Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we expressed our conclusions on the District's responses, we did not audit Pella Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Pella Community School District and other parties to whom Pella Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Van Maanen, Sietstra & Meyer, PC

Van Maanen, Sietstra & Meyer, PC
Certified Public Accountants

October 17, 2012

Part I: Summary of the Independent Auditor's Results

- (a) Unqualified opinions were issued on the financial statements.
- (b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the major programs was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed an audit finding which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - Child Nutrition Cluster:
 - CFDA Number 10.553 – School Breakfast Program
 - CFDA Number 10.555 – National School Lunch Program
 - CFDA Number 84.410– ARRA – Education Jobs Fund
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (I) Pella Community School District did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

- II-A-12 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, expenditures are recorded and checks are prepared by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response – We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs for Federal Awards

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

CFDA Number 10.553: School breakfast Program
CFDA Number 10.555: National School Lunch Program
Federal Award Year: 2012
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.410: ARRA – Education Jobs Fund
Federal Award Year: 2012
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-12 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, expenditures are recorded and checks are prepared by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

Part IV: Other Findings Related to Required Statutory Reporting

IV-A-12 Certified Budget - Expenditures for the year ended June 30, 2012, exceeded the certified budget amounts in the support services and non instructional program.

Recommendation – The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response – Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion – Response accepted

IV-B-12 Questionable Expenditures - No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-12 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

Pella Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2012

- IV-D-12 Business Transactions - Business transactions between the District and District officials or employees for the year ended June 30, 2012 are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Jim Emmert, Teacher Owner of Dr. E, Unlimited	Sound Tech Services	\$ 518

None of the transactions appear to be a conflict of interest and they appear to be in compliance with board policies.

Recommendation - The District may want to consult legal counsel to determine disposition of this matter.

Response - We will consider the need to consult with legal counsel.

Conclusion - Response accepted.

- IV-E-12 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.

- IV-F-12 Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted.

- IV-G-12 Certified Enrollment - A variance in the basic enrollment data certified to the Iowa Department of Education was noted.

Recommendation - The certified enrollment data should be corrected for students who exit the District.

Response - We will correct the certified enrollment in the future for students exiting the system.

Conclusion - Response accepted.

- IV-H-12 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

- IV-I-12 Deposits and Investments - One instance of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the District's investment policy was noted.

Recommendation - The depository resolution for the District should be corrected to include all depositories.

Response - We will correct the depository resolution.

Conclusion - Response accepted.

- IV-J-12 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

- IV-K-12 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.

Pella Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2012

- IV-L-12 Statewide Sales, Services and Use Tax – No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2012, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$	885,212
Revenues/transfers in:			
Sales tax revenues	\$	1,858,411	
Other local revenues		954	1,859,365
			<u>2,744,577</u>
Expenditures/transfers out:			
Construction services		6,737	
Transfers to other funds:			
Debt service funds		1,159,502	1,166,239
			<u>1,166,239</u>
Ending balance		\$	<u>1,578,338</u>

For the year ended June 30, 2012, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.